

OCEANEERING INTERNATIONAL INC

Form 10-Q

November 07, 2007

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 1-10945

OCEANEERING INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

95-2628227

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

11911 FM 529
Houston, Texas

77041

(Address of principal executive offices)

(Zip Code)

(713) 329-4500

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes , No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes , No .

The number of shares of the registrant's common stock outstanding as of October 29, 2007 was 55,072,938.

Oceaneering International, Inc.
Form 10-Q
Table of Contents

Part I Financial Information

Item 1. Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

Part II Other Information

Item 6. Exhibits

Signatures

Index to Exhibits

Rule 13a-14(a)/15d-14(a) Certification of CEO

Rule 13a-14(a)/15d-14(a) Certification of CFO

Section 1350 Certification by CEO

Section 1350 Certification by CFO

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS****(unaudited)**
(in thousands)

	Sept. 30, 2007	Dec. 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 43,502	\$ 26,228
Accounts receivable, net of allowances for doubtful accounts of \$160 and \$114	415,582	315,255
Inventory and other current assets	278,135	182,162
Total current assets	737,219	523,645
Property and Equipment, at cost	1,202,672	1,040,042
Less accumulated depreciation	586,742	516,335
Net Property and Equipment	615,930	523,707
Other Assets:		
Goodwill	112,123	86,931
Investments in unconsolidated affiliates	64,632	64,496
Other	45,861	43,243
Total other assets	222,616	194,670
TOTAL ASSETS	\$ 1,575,765	\$ 1,242,022
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 92,096	\$ 70,777
Accrued liabilities	234,379	180,073
Income taxes payable	41,376	28,856
Total current liabilities	367,851	279,706
Long-term Debt	263,000	194,000
Other Long-term Liabilities	75,816	71,552
Commitments and Contingencies		
Shareholders Equity	869,098	696,764

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 1,575,765	\$ 1,242,022
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Table of Contents

OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

(in thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue	\$ 485,424	\$ 337,263	\$ 1,261,469	\$ 937,835
Cost of Services and Products	367,911	249,038	958,344	717,336
Gross margin	117,513	88,225	303,125	220,499
Selling, General and Administrative Expense	31,908	27,634	87,686	74,045
Income from operations	85,605	60,591	215,439	146,454
Interest Income	316	130	568	260
Interest Expense, net of amounts capitalized	(4,400)	(3,528)	(11,502)	(9,450)
Equity Earnings of Unconsolidated Affiliates	1,022	2,482	3,263	10,715
Other Expense, Net	(69)	(1,213)	(242)	(2,400)
Income before income taxes	82,474	58,462	207,526	145,579
Provision for Income Taxes	28,621	19,915	72,634	50,929
Net Income	\$ 53,853	\$ 38,547	\$ 134,892	\$ 94,650
Basic Earnings per Share	\$ 0.98	\$ 0.71	\$ 2.47	\$ 1.76
Diluted Earnings per Share	\$ 0.96	\$ 0.70	\$ 2.42	\$ 1.72
Weighted average number of common shares	54,979	54,185	54,689	53,829
Incremental shares from stock equivalents	842	1,098	995	1,220
Weighted average number of common shares and equivalents	55,821	55,283	55,684	55,049

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Table of Contents

OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	For the Nine Months Ended September 30,	
	2007	2006
Cash Flows from Operating Activities:		
Net income	\$ 134,892	\$ 94,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	68,666	58,939
Gain on sales of property and equipment	(4,198)	
Noncash compensation and other	13,036	6,110
Undistributed earnings of unconsolidated affiliates	(18)	(2,749)
Increase (decrease) in cash from:		
Accounts receivable	(100,327)	(56,768)
Inventory and other current assets	(95,973)	(60,568)
Other assets	2,511	(2,968)
Current liabilities	88,146	54,050
Other long-term liabilities	2,670	8,084
Total adjustments to net income	(25,487)	4,130
Net Cash Provided by Operating Activities	109,405	98,780
Cash Flows from Investing Activities:		
Business acquisitions	(25,116)	(1,109)
Purchases of property and equipment and other, net	(151,585)	(126,949)
Proceeds on sales of property and equipment	5,222	
Net Cash Used in Investing Activities	(171,479)	(128,058)
Cash Flows from Financing Activities:		
Net proceeds from revolving credit, net of expenses	88,561	46,000
Payments of 6.72% Senior Notes	(20,000)	(20,000)
Proceeds from issuance of common stock	5,118	5,352
Excess tax benefits from stock-based compensation	5,669	5,282

Net Cash Provided by Financing Activities	79,348	36,634
Net Increase in Cash and Cash Equivalents	17,274	7,356
Cash and Cash Equivalents Beginning of Period	26,228	26,308
Cash and Cash Equivalents End of Period	\$ 43,502	\$ 33,664

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Page 5

Table of Contents

OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation and Significant Accounting Policies

We have prepared these unaudited consolidated financial statements pursuant to instructions for the quarterly report on Form 10-Q, which we are required to file with the Securities and Exchange Commission. These financial statements do not include all information and footnotes normally included in financial statements prepared in accordance with generally accepted accounting principles. These financial statements reflect all adjustments that we believe are necessary to present fairly our financial position at September 30, 2007 and our results of operations and cash flows for the periods presented. All such adjustments are of a normal and recurring nature. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the year ended December 31, 2006. The results for interim periods are not necessarily indicative of annual results.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that our management make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

2. Investments in Unconsolidated Affiliates

Our investments in unconsolidated affiliates consisted of the following:

	Sept. 30, 2007	Dec. 31, 2006
	<i>(in thousands)</i>	
Medusa Spar LLC	\$ 63,167	\$ 63,149
Other	1,465	1,347
Total	\$ 64,632	\$ 64,496

We own a 50% equity interest in Medusa Spar LLC. Medusa Spar LLC owns a 75% interest in a production spar platform in the Gulf of Mexico. Medusa Spar LLC's revenue is derived from processing oil and gas production for a fee based on the volumes processed through the platform (throughput). The majority working interest owner of the Medusa field, the spar's initial location, has committed to deliver a minimum throughput, which we expect will generate sufficient revenue to repay Medusa Spar LLC's bank debt. Medusa Spar LLC financed its acquisition of its 75% interest in the production spar platform using approximately 50% debt and 50% equity from its equity holders. We believe our maximum exposure to loss from our investment in Medusa Spar LLC is our \$63 million investment. Medusa Spar LLC is a variable interest entity. As we are not the primary beneficiary under Financial Accounting Standards Board (FASB) Interpretation Number 46(R), *Consolidation of Variable Interest Entities*, we are accounting for our investment in Medusa Spar LLC under the equity method of accounting. Equity earnings from Medusa Spar LLC reflected in our financial statements are after amortization of our initial acquisition costs. The following are summarized 100% statements of income of Medusa Spar LLC.

Table of Contents

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
	<i>(in thousands)</i>			
Medusa Spar LLC Condensed Statements of Income				
Revenue	\$ 4,381	\$ 8,157	\$ 14,538	\$ 28,883
Depreciation	(2,369)	(2,369)	(7,108)	(7,108)
General and Administrative	(63)	(17)	(96)	(93)
Interest	(347)	(484)	(1,131)	(1,481)
Net Income	\$ 1,602	\$ 5,287	\$ 6,203	\$ 20,201
Equity Earnings reflected in our financial statements	\$ 771	\$ 2,614	\$ 3,012	\$ 9,996

3. Inventory and Other Current Assets

Our inventory and other current assets consisted of the following:

	Sept. 30, 2007	Dec. 31, 2006
	<i>(in thousands)</i>	
Inventory of parts for remotely operated vehicles	\$ 83,532	\$ 61,763
Other inventory, primarily raw materials	141,277	78,130
Deferred income taxes	26,160	18,618
Other	27,166	23,651
Total	\$ 278,135	\$ 182,162

We state our inventory at the lower of cost or market. We determine cost using the weighted-average method.

4. Debt

Our long-term debt consisted of the following:

	Sept. 30, 2007	Dec. 31, 2006
	<i>(in thousands)</i>	
6.72% Senior Notes	\$ 60,000	\$ 80,000
Revolving credit facility	203,000	114,000
Total	\$ 263,000	\$ 194,000

Table of Contents

Scheduled maturities of our long-term debt as of September 30, 2007 were as follows:

	6.72% Notes	Revolving Credit (in thousands)	Total
Remainder of 2007	\$	\$	\$
2008	20,000		20,000
2009	20,000		20,000
2010	20,000		20,000
2011			
Thereafter		203,000	203,000
Total	\$ 60,000	\$ 203,000	\$ 263,000

Maturities through September 30, 2008 are not classified as current as of September 30, 2007 because we are able and intend to extend the maturity by reborrowing under our revolving credit facility, which has a maturity date beyond one year. We capitalized interest charges of \$765,000 and \$47,000 in the nine-month periods ended September 30, 2007 and 2006, respectively, and \$247,000 in the three-month period ended September 30, 2007, as part of construction-in-progress.

5. Shareholders Equity and Comprehensive Income

Our shareholders equity consisted of the following:

	Sept. 30, 2007	Dec. 31, 2006
	(in thousands)	
Retained earnings, December 31, 2006	\$ 472,525	\$ 472,525
Adjustment to beginning retained earnings to implement FIN No. 48	(1,595)	
Net income for the period ended September 30, 2007	134,892	
Retained earnings, end of period	605,822	472,525
Common Stock, par value \$0.25; 90,000,000 shares authorized; 55,062,898 and 54,440,488 shares issued	13,766	13,610
Additional paid-in capital	206,628	191,910
Other comprehensive income	42,882	18,719
Total	\$ 869,098	\$ 696,764

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN No. 48), *Accounting for Uncertainty in Income Taxes*. The interpretation became effective for us beginning January 1, 2007, and we made an adjustment of \$1.6 million to our retained earnings account as of January 1, 2007 to record the effect of our adoption of this interpretation.

Table of Contents

Comprehensive income is the total of net income and all nonowner changes in equity. The amounts of comprehensive income for the periods indicated are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
	<i>(in thousands)</i>			
Net Income per Consolidated Statements of Income	\$ 53,853	\$ 38,547	\$ 134,892	\$ 94,650
Foreign Currency Translation Gains, net	14,986	(1,031)	24,334	8,410
Change in Pension Liability Adjustment, net of tax		(124)	15	442
Change in Fair Value of Hedge, net of tax	(112)	(174)	(186)	(120)
Total	\$ 68,727	\$ 37,218	\$ 159,055	\$ 103,382

Amounts comprising other elements of comprehensive income in Shareholders Equity are as follows:

	Sept. 30,	Dec. 31,
	2007	2006
	<i>(in thousands)</i>	
Accumulated Net Foreign Currency Translation Adjustments	\$ 45,907	\$ 21,573
Pension Liability Adjustment	(3,192)	(3,207)
Fair Value of Hedge	167	353
Total	\$ 42,882	\$ 18,719

6. Income Taxes

During interim periods, we provide for income taxes at our estimated effective tax rate, currently 35.0%, using assumptions as to (1) earnings and other factors that would affect the tax calculation for the remainder of the year and (2) the operations of foreign branches and subsidiaries that are subject to local income and withholding taxes.

Effective January 1, 2007, we adopted FIN No. 48. This interpretation clarifies the criteria for recognizing income tax benefits under Statement of Financial Accounting Standards (SFAS) No. 109, and requires additional disclosures about uncertain tax positions. Under FIN No. 48, the financial statement recognition of the benefit for a tax position depends on the benefit being more likely than not to be sustainable upon audit by the applicable taxing authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that is greater than 50 percent likely of being realized upon ultimate settlement.

We account for any applicable interest and penalties on uncertain tax positions as a component of our provision for income taxes on our financial statements. We charged \$0.4 million to income tax expense in the nine months ended September 30, 2007 for penalties and interest taken on our financial statements on uncertain tax positions, which brought our total liabilities for penalties and interest on uncertain tax positions to \$2.8 million on our balance sheet at September 30, 2007. Including penalties and interest, we have accrued a total of \$6.2 million in the caption other long-term liabilities on our balance sheet for unrecognized tax benefits. All additions or reductions to those liabilities affect our effective income tax rate in the periods of change.

We do not believe that the total of unrecognized tax benefits will significantly increase or decrease in the next 12 months.

Table of Contents

The following lists the earliest tax years open to examination by tax authorities where we have significant operations:

Jurisdiction	Periods
United States	2004
United Kingdom	2004
Norway	2000
Angola	2002
Nigeria	2001
Brazil	2001

We conduct our operations in a number of locations that have varying laws and regulations with regard to income and other taxes, some of which are subject to interpretation. Our tax returns are subject to audit by taxing authorities in multiple jurisdictions. These audits often take years to complete and settle. Our management believes that adequate provisions have been made for all taxes that will ultimately be payable, although final determination of tax liabilities may differ from our estimates.

7. Business Segment Information

We supply a comprehensive range of technical services and specialty products to customers in a variety of industries. Our Oil and Gas business consists of five business segments: Remotely Operated Vehicles (ROVs); Subsea Products; Subsea Projects; Inspection; and Mobile Offshore Production Systems. Our Advanced Technologies business is a separate segment that provides project management, engineering services, products and equipment for applications outside the oil and gas industry. Unallocated Expenses are those not associated with a specific business segment. These consist of expenses related to our incentive and deferred compensation plans, including restricted stock and bonuses, as well as other general expenses.

There are no differences in the basis of segmentation or in the basis of measurement of segment profit or loss from those used in our consolidated financial statements for the year ended December 31, 2006. The following summarizes certain financial data by business segment:

Page 10

Table of Contents

	For the Three Months Ended			For the Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	June 30, 2007	Sept. 30, 2007	Sept. 30, 2006
	<i>(in thousands)</i>				
Revenue					
Oil and Gas					
ROVs	\$ 141,887	\$ 108,801	\$ 130,219	\$ 385,436	\$ 296,389
Subsea Products	145,186	98,993	117,311	367,368	265,326
Subsea Projects	82,989	38,410	68,575	184,664	122,519
Inspection	58,182	45,526	55,417	161,019	121,494
Mobile Offshore Production Systems	13,366	12,767	14,453	38,843	38,454
Total Oil and Gas	441,610	304,497	385,975	1,137,330	844,182
Advanced Technologies	43,814	32,766	46,066	124,139	93,653
Total	\$ 485,424	\$ 337,263	\$ 432,041	\$ 1,261,469	\$ 937,835
Gross Margins					
Oil and Gas					
ROVs	\$ 45,712	\$ 35,224	\$ 42,364	\$ 120,759	\$ 93,664
Subsea Products	40,172	22,801	30,552	99,717	58,717
Subsea Projects	31,118	18,182	25,524	72,215	53,642
Inspection	10,483	8,304	11,144	28,309	21,720
Mobile Offshore Production Systems	3,049	4,055	6,027	12,474	11,756
Total Oil and Gas	130,534	88,566	115,611	333,474	239,499
Advanced Technologies	7,425	5,028	7,245	20,545	13,800
Unallocated Expenses	(20,446)	(5,369)	(16,846)	(50,894)	(32,800)
Total	\$ 117,513	\$ 88,225	\$ 106,010	\$ 303,125	\$ 220,499
Income from Operations					
Oil and Gas					
ROVs	\$ 39,815	\$ 30,160	\$ 36,675	\$ 103,983	\$ 79,635
Subsea Products	29,786	15,422	20,973	71,383	38,390
Subsea Projects	28,954	16,790	23,564	66,588	49,528
Inspection	6,752	4,828	7,516	17,749	11,797
Mobile Offshore Production Systems	2,657	3,727	5,640	11,363	10,971
Total Oil and Gas	107,964	70,927	94,368	271,066	190,321
Advanced Technologies	4,139	3,185	5,028	13,093	7,799
Unallocated Expenses	(26,498)	(13,521)	(23,098)	(68,720)	(51,666)
Total	\$ 85,605	\$ 60,591	\$ 76,298	\$ 215,439	\$ 146,454

We generate a material amount of our consolidated revenue from contracts for services in the Gulf of Mexico and North Sea, which are usually more active from April through October compared to the rest of the year. In each of the periods presented, Subsea Projects had higher-than-normal revenue due to work made necessary by severe hurricanes in the Gulf of Mexico in 2004 and 2005. Revenue in our ROV segment is slightly seasonal, with our first quarter generally being the low quarter of that year. The level of our ROV seasonality depends on the number of ROVs we have in construction support, which is more seasonal than drilling support. Revenue in each of our Subsea Products, Mobile Offshore Production Systems and Advanced Technologies segments has generally not been seasonal.

We have continued to grow our Oil and Gas business by making business acquisitions and purchasing equipment. For the nine months ended September 30, 2007, we have invested \$87 million and \$55 million in our ROV and Subsea Products segments, respectively. Additionally, during the period, the total of our accounts receivable and inventory balances related to our ROV and Subsea Products segments increased by \$34 million and \$119 million, respectively.

Table of Contents

8. Stock-Based Compensation

Under our 2005 Incentive Plan (the "Incentive Plan"), a total of 2,400,000 shares of our common stock was made available for awards to employees and nonemployee members of our Board of Directors. The Incentive Plan is administered by the Compensation Committee of our Board of Directors; however, the full Board of Directors makes determinations regarding awards to nonemployee directors under the Incentive Plan. The Compensation Committee or Board of Directors, as applicable, determines the type or types of award(s) to be made to each participant and approves the related award agreements, which set forth the terms, conditions and limitations applicable to the awards. Stock options, stock appreciation rights and stock and cash awards may be made under the Incentive Plan.

Stock Options

Stock options outstanding under the Incentive Plan and prior plans vest over a six-month, a three-year or a four-year period and are exercisable over a period of five, seven or ten years after the date of grant or five years after the date of vesting. Under the Incentive Plan, a stock option must have a term not exceeding seven years from the date of grant and must have an exercise price of not less than the fair market value of a share of our common stock on the date of grant. The Compensation Committee may not: (1) grant, in exchange for a stock option, a new stock option having a lower exercise price; or (2) reduce the exercise price of a stock option. The Compensation Committee has expressed its intention to refrain from using stock options as a component of employee compensation for our executive officers and other employees for the foreseeable future, and the Board of Directors has expressed its intention to refrain from using stock options as a component of nonemployee director compensation for the foreseeable future.

At September 30, 2007, we had 298,150 outstanding stock options, with a weighted average exercise price of \$15.23 and an aggregate intrinsic value of \$18.1 million. The weighted average remaining contract term of our stock options outstanding at September 30, 2007 was 1.9 years.

As of September 30, 2007, we had no future stock-based compensation expense to be recognized pursuant to stock option grants, as all outstanding stock options are vested.

Restricted Stock Plan Information

In 2007 and 2006, we granted shares of restricted common stock to our nonemployee directors, excluding our Chairman, and restricted units of our common stock to our Chairman and certain of our key executives and employees. The shares of restricted stock are subject to a one-year vesting requirement and the restricted units generally vest in full on the third anniversary of the award date, conditional on continued employment. The remainder of the restricted unit grants can vest pro rata over three years, provided the employee meets certain age and years-of-service requirements.

At the time of vesting of a restricted stock unit, the employee will be issued a share of our common stock for each common stock unit vested. As of September 30, 2007 and December 31, 2006, 894,550 and 917,250 shares of restricted stock or restricted stock units were outstanding and unvested under the Incentive Plan and prior plans. Each grantee of shares of restricted stock mentioned in this paragraph is deemed to be the record owner of those shares during the restriction period, with the right to vote and receive any dividends on those shares. The restricted stock units have no voting rights, but they carry a dividend-equivalent right should we pay dividends on our common stock.

We estimate that stock-based compensation cost not yet recognized related to shares of restricted stock or restricted stock units, based on their grant-date fair values, was \$9.6 million at September 30, 2007. This expense is being recognized on a staged-vesting basis over the next four years for the awards granted in 2004 and 2002 and the awards made in 2007 and 2006 attributable to employees meeting certain age and years-of-service requirements, and a straight-line basis over one to three years for the other awards granted in 2007 and 2006.

9. Business Acquisitions

During the nine months ended September 30, 2007, we acquired Ifokus Engineering AS, a designer and manufacturer of specialty subsea products based in Norway, for \$20 million, and CET Medway Ltd., a Non-

Page 12

Table of Contents

Destructive Testing and Inspection Service Company based in England, for \$5 million. Ifokus results have been included in our Subsea Products segment, and CET Medway s have been included in our Inspection segment, each from their respective date of acquisition.

We are accounting for these business acquisitions using the purchase method of accounting, with the purchase price being allocated to the assets and liabilities acquired based on their fair market values at the respective dates of acquisition. We have made the purchase price allocations based on information currently available to us, and the allocations are subject to change when we obtain final asset and liability valuations. These acquisitions were not material. As a result, we have not included pro forma information in this report.

10. New Accounting Standards

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 requires us to recognize the funded status of the pension and postretirement plans in our balance sheet, along with a corresponding noncash, after-tax adjustment to shareholders equity. Funded status is determined as the difference between the fair value of plan assets and the projected benefit obligation. Changes in the funded status will be recognized in other comprehensive income (loss). We adopted SFAS No. 158 at the end of 2006.

In June 2006, the FASB issued FIN No. 48. The interpretation became effective for us beginning January 1, 2007, and its implementation is discussed in Notes 5 and 6 to these consolidated financial statements.

In September 2006, the FASB issued FASB Staff Position No. AUG AIR-1, *Accounting for Planned Major Maintenance Activities*, which was effective for us beginning January 1, 2007. The Staff Position prohibits companies from recognizing planned major maintenance costs by accruing a liability over several reporting periods before the maintenance is performed the accrue-in-advance method. We previously used the accrue-in-advance method for anticipated drydocking of our vessels and, effective January 1, 2007, we began to expense these costs as incurred. This change was not material to our current or previously issued financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. This statement will be effective for us beginning January 1, 2008. We are evaluating the impact of this standard on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115*. SFAS No. 159 allows companies to measure many financial instruments and certain other items at fair value that are not otherwise required to be measured at fair value under GAAP. A company that elects the fair value option for an eligible item will be required to recognize in current earnings any changes in that item s fair value in reporting periods subsequent to the date of adoption. SFAS No. 159 will be effective for us beginning January 1, 2008. We are evaluating the impact of this standard on our consolidated financial statements.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

All statements in this quarterly report on Form 10-Q, other than statements of historical facts, including, without limitation, statements regarding our expectations about 2007 and 2008 net income and segment results, our plans for future operations, the adequacy of our working capital, our expectations about the profit contribution from our investment in Medusa Spar LLC, our expectations regarding inspection and repair work for the remainder of 2007 made necessary by hurricanes, our backlog, our anticipated tax rate for 2007 and industry conditions, are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to various risks, uncertainties and assumptions, including those we have referred to under the headings Risk Factors and Cautionary Statement Concerning Forward-Looking Statements in Part I of our annual report on Form 10-K for the year ended December 31, 2006. Although we believe that the expectations reflected in such forward-looking statements are reasonable, because of the inherent limitations in the forecasting process, as well as the relatively volatile nature of the industries in which we operate, we can give no assurance that those expectations will prove to be correct. Accordingly, evaluation of our future prospects must be made with caution when relying on forward-looking information.

The following discussion should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the year ended December 31, 2006.

Executive Overview

We generate approximately 90% of our revenue and 95% of our operating income before Unallocated Expenses from our services and products provided to the oil and gas industry. Our net income for each of the three- and nine-month periods ended September 30, 2007 was higher than any corresponding periods in our company's history. Compared to the second quarter of 2007, quarterly net income increased due to improved performances from our ROV, Subsea Products and Subsea Projects segments.

For the full-year 2007, we anticipate net income to be approximately 40% higher than 2006, mostly due to increases in operating income in our Subsea Products, ROV and Subsea Projects segments.

For 2008, we anticipate our net income to be approximately 15% higher than 2007, with increased ROV and Subsea Products operating income from continued demand growth, and decreased Subsea Projects operating income due to decreasing demand for our diving and shallow water vessel services as hurricane damage-related projects near completion and scheduled regulatory drydock inspections of four of our six owned vessels.

Critical Accounting Policies and Estimates

For information about our Critical Accounting Policies and Estimates, please refer to the discussion in our annual report on Form 10-K for the year ended December 31, 2006 under the heading Critical Accounting Policies and Estimates in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operation.

New Accounting Standards

For a discussion of new accounting standards applicable to us, see the discussion in Note 10 to the Consolidated Financial Statements contained in Item 1 of this quarterly report on Form 10-Q.

Liquidity and Capital Resources

We consider our liquidity and capital resources adequate to support our existing operations and capital commitments. At September 30, 2007, we had working capital of \$369 million, including \$44 million of cash and cash equivalents. Additionally, we had \$97 million of borrowing capacity available under our \$300 million revolving credit facility. Our capital expenditures, including business acquisitions, were \$178 million during the first nine months of 2007, as compared to \$134 million during the corresponding period last year. Capital expenditures in 2007 included expenditures for: the purchase of Norway-based Ifokus Engineering AS, a designer and manufacturer of specialty subsea products, for \$20 million; additions and upgrades to our ROV fleet; vessel upgrades; the acquisition of a small inspection company in the United Kingdom; and facility expansions in the United Kingdom, Norway, Morgan City, LA and Houston. Our facility expansions in the United Kingdom, Norway and Houston relate to our Subsea

Table of Contents

Products manufacturing operations, and our Morgan City expansion will support our ROV and Subsea Projects operations. We added 24 ROVs to our fleet and disposed of six older units during the nine months ended September 30, 2007, resulting in a total of 204 systems in the fleet. We have chartered the *Ocean Intervention III* from another party for an initial term of three years which began in May 2007, with extension options for up to six additional years. The *Ocean Intervention III* is equipped with two of our work-class ROVs. We obtained a one-year contract for the vessel, with customer options for up to two additional one-year periods, to work on shallow water hurricane damage-related projects in the Gulf of Mexico. We have received notice that the customer has declined to exercise the extension options, and we now plan to utilize the *Ocean Intervention III* on deepwater projects after it has completed its current commitment. We have also chartered the *Olympic Intervention IV* for an initial term of five years, which we anticipate will begin in the third quarter of 2008. The *Olympic Intervention IV* will be outfitted with two high-specification work-class ROVs, and we anticipate using the vessel to perform subsea hardware installation and inspection, repair and maintenance projects, and to conduct well intervention services in the ultra-deep waters of the Gulf of Mexico. Capital expenditures in 2006 included additions and upgrades to our ROV fleet. In 2006, we also purchased (1) an oil tanker for possible future conversion to a mobile offshore production system in the event we obtain a suitable contract and (2) the vessel from our cable-lay and maintenance joint venture. We subsequently sold the cable-lay vessel in the third quarter of 2006. We had also commenced improvements in our Subsea Products manufacturing facilities, including the addition of equipment to increase the capacity of these facilities. We had no material contractual commitments for capital expenditures at September 30, 2007. We currently estimate that our total capital expenditures, including completed business acquisitions, for 2007 will be approximately \$220 million.

At September 30, 2007, we had long-term debt of \$263 million and a 23% debt-to-total-capitalization ratio. We have \$60 million of Senior Notes outstanding, to be repaid from 2008 through 2010, and \$203 million outstanding under our \$300 million revolving credit facility, which is scheduled to expire in January 2012. The revolving credit facility has short-term interest rates that float with market rates, plus applicable spreads. The amount available under the credit agreement can be increased to \$450 million upon our agreement with the existing or additional lenders. We have not guaranteed any debt not reflected on our consolidated balance sheet and do not have any off-balance sheet arrangements, as defined by SEC rules.

In the nine-month period ended September 30, 2007, our cash and cash equivalents rose to \$44 million. Our cash balance was higher than it was at December 31, 2006 due to our receipt of customer payments close to the end of the quarter, and too late to be used to pay down debt under our revolving credit agreement before the end of the quarter. We generated \$109 million in cash from operating activities, used \$171 million of cash in investing activities and obtained \$79 million of cash from financing activities. The cash used in investing activities was used primarily for the capital expenditures and business acquisitions described above, and the cash obtained from financing activities was used, along with the cash provided by operating activities, to pay for those capital expenditures and business acquisitions and to finance an increase in working capital of \$125 million. The increase in working capital was the result of higher accounts receivable and higher inventories, partially offset by increases in accounts payable and accrued liabilities. Receivables increased due to increased revenue, and inventory increased due to Subsea Products backlog requirements, increased ROV activity levels and continuing construction of new ROVs.

In September 2002, our Board of Directors authorized us to repurchase up to 6 million shares of our common stock, subject to a \$75 million aggregate purchase price limitation. Under this plan, we have repurchased an aggregate of 1,795,600 shares of common stock through September 30, 2007, at a total cost of \$20 million. We have reissued all of those shares as contributions to our 401(k) plan or in connection with exercises of stock options. Although we have not made any such repurchases since April 2003, we may from time to time effect additional repurchases in accordance with the terms of the Board's authorization, which remains in effect.

Results of Operations

We operate in six business segments. The segments are contained within two businesses – services and products provided to the oil and gas industry (Oil and Gas) and all other services and products (Advanced Technologies). Our Unallocated Expenses are those not associated with a specific business segment.

Table of Contents

Consolidated revenue and margin information is as follows:

	For the Three Months Ended			For the Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	June 30, 2007	Sept. 30, 2007	Sept. 30, 2006
	<i>(dollars in thousands)</i>				
Revenue	\$485,424	\$337,263	\$432,041	\$1,261,469	\$937,835
Gross margin	117,513	88,225	106,010	303,125	220,499
Operating income	85,605	60,591	76,298	215,439	146,454
Gross margin %	24%	26%	25%	24%	24%
Operating income %	18%	18%	18%	17%	16%

We generate a material amount of our consolidated revenue from contracts for services in the Gulf of Mexico and North Sea, which are usually more active from April through October compared to the rest of the year. In each of the periods presented, Subsea Projects had higher-than-normal revenue due to work made necessary by severe hurricanes in the Gulf of Mexico in 2004 and 2005. Revenue in our ROV segment is slightly seasonal, with our first quarter generally being the low quarter of that year. The level of our ROV seasonality depends on the number of ROVs we have in construction support, which is more seasonal than drilling support. Revenue in each of our Subsea Products, Mobile Offshore Production Systems and Advanced Technologies segments has generally not been seasonal.

Page 16

Table of Contents**Oil and Gas**

The table that follows sets forth our revenues and margins for our Oil and Gas business for the periods indicated.

	For the Three Months Ended			For the Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	June 30, 2007	Sept. 30, 2007	Sept. 30, 2006
	<i>(dollars in thousands)</i>				
Remotely Operated Vehicles					
Revenue	\$ 141,887	\$ 108,801	\$ 130,219	\$ 385,436	\$ 296,389
Gross margin	45,712	35,224	42,364	120,759	93,664
Gross margin %	32%	32%	33%	31%	32%
Operating income	39,815	30,160	36,675	103,983	79,635
Operating income %	28%	28%	28%	27%	27%
Utilization %	88%	86%	87%	86%	85%
Subsea Products					
Revenue	145,186	98,993	117,311	367,368	265,326
Gross margin	40,172	22,801	30,552	99,717	58,717
Gross margin %	28%	23%	26%	27%	22%
Operating income	29,786	15,422	20,973	71,383	38,390
Operating income %	21%	16%	18%	19%	14%
Subsea Projects					
Revenue	82,989	38,410	68,575	184,664	122,519
Gross margin	31,118	18,182	25,524	72,215	53,642
Gross margin %	37%	47%	37%	39%	44%
Operating income	28,954	16,790	23,564	66,588	49,528
Operating income %	35%	44%	34%	36%	40%
Inspection					
Revenue	58,182	45,526	55,417	161,019	121,494
Gross margin	10,483	8,304	11,144	28,309	21,720
Gross margin %	18%	18%	20%	18%	18%
Operating income	6,752	4,828	7,516	17,749	11,797
Operating income %	12%	11%	14%	11%	10%
Mobile Offshore Production Systems					
Revenue	13,366	12,767	14,453	38,843	38,454
Gross margin	3,049	4,055	6,027	12,474	11,756
Gross margin %	23%	32%	42%	32%	31%
Operating income	2,657	3,727	5,640	11,363	10,971
Operating income %	20%	29%	39%	29%	29%
Total Oil and Gas					
Revenue	\$ 441,610	\$ 304,497	\$ 385,975	\$ 1,137,330	\$ 844,182
Gross margin	130,534	88,566	115,611	333,474	239,499
Gross margin %	30%	29%	30%	29%	28%
Operating income	107,964	70,927	94,368	271,066	190,321

Table of Contents

Our ROV segment revenue reflects the utilization percentages, fleet sizes and average pricing of the respective periods. Operating income was favorably impacted in the three- and nine-month periods of 2007 compared to the corresponding periods of the prior year and the immediately preceding quarter by increases in the average revenue per day of ROV utilization and the number of days on hire. We expect our full-year 2007 ROV operating income to be \$25 million to \$30 million higher than 2006.

The increases in our Subsea Products revenue and operating income for the three- and nine-month periods ended September 30, 2007 compared to the corresponding periods of the prior year and the immediately preceding quarter were attributable to increased umbilical and specialty product sales. Margin percentages improved due to changes in product mix and increased throughput at our umbilical plants. We expect our full-year 2007 Subsea Products operating income to be \$45 million to \$50 million more than 2006, due to improved umbilical manufacturing results and higher specialty product sales. Our Subsea Products backlog was \$344 million at September 30, 2007 compared to \$359 million at December 31, 2006.

Our Subsea Projects operating income was higher in the three- and nine-month periods ended September 30, 2007 than that of the corresponding periods of the prior year and the immediately preceding quarter, due to an increase in hurricane damage-related projects, demand growth for our deepwater subsea equipment installation and inspection and repair and maintenance services. Our margin percentages decreased compared to the corresponding quarter of the prior year, as we chartered two vessels to perform hurricane damage-related repair projects, and our margin percentage is not as high when we charter vessels due to the higher third-party cost content. We expect our full-year 2007 operating income for Subsea Projects to be \$25 million to \$30 million higher than that of 2006.

Our Inspection margins increased as a result of strong demand in most of the geographic areas we serve. We expect higher operating income for the full-year 2007 as compared to 2006 from higher pricing and selling more value-added services.

Our Mobile Offshore Production Systems segment's three main assets were working under the same contracts as in 2006. However, the contract for the use of our vessel PB *San Jacinto* was terminated and the vessel went off-hire in July 2007. The higher margins in the nine-month period ended September 30, 2007 compared to the corresponding period of the prior year were the result of a \$2.8 million contract settlement reached in the quarter ended June 30, 2007 related to the contract termination for the use of the PB *San Jacinto*, as the customer did not return the unit in the condition specified in the contract. We are evaluating our options for this system, and a sale of the vessel appears to be the most likely outcome. We do not expect the loss of this contract to be material to our financial condition or results of operations. The lower margins and operating income for the quarter ended September 30, 2007 compared to the corresponding quarter of the prior year were the result of a lower dayrate going into effect in mid-May for the use of the *Ocean Legend*, as per the renewal option terms in the existing contract, and the termination of the *San Jacinto* contract described above.

Advanced Technologies

Revenue and margin information is as follows:

	For the Three Months Ended			For the Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	June 30, 2007	Sept. 30, 2007	Sept. 30, 2006
	<i>(dollars in thousands)</i>				
Revenue	\$43,814	\$32,766	\$46,066	\$124,139	\$93,653
Gross margin	7,425	5,028	7,245	20,545	13,800
Gross margin %	17%	15%	16%	17%	15%
Operating income	4,139	3,185	5,028	13,093	7,799
Operating income %	9%	10%	11%	11%	8%

Our Advanced Technologies segment's revenue and margins for the three- and nine-month periods ended September 30, 2007 increased over the corresponding periods of the prior year due to increased work for the U.S. Navy on submarines and waterfront facilities and general engineering services. For the full-year 2007, we expect

Table of Contents

our Advanced Technologies operating income will be higher than 2006 from higher U.S. Navy demand for general engineering services and submarine repair, maintenance and engineering projects.

Unallocated Expenses

Our Unallocated Expenses, *i.e.*, those not associated with a specific business segment, within gross margin consist of expenses related to our incentive and deferred compensation plans, including restricted stock and bonuses, as well as other general expenses. Our Unallocated Expenses within operating income consist of those within gross margin plus general and administrative expenses related to corporate functions.

The table that follows sets out our Unallocated Expenses for the periods indicated.

	For the Three Months Ended			For the Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	June 30, 2007	Sept. 30, 2007	Sept. 30, 2006
	<i>(dollars in thousands)</i>				
Gross margin expenses	\$ (20,446)	\$ (5,369)	\$ (16,846)	\$ (50,894)	\$ (32,800)
% of revenue	4%	2%	4%	4%	3%
Operating income expenses	(26,498)	(13,521)	(23,098)	(68,720)	(51,666)
% of revenue	5%	4%	5%	5%	6%

Our higher long-term incentive expenses were the principal cause of the increases in Unallocated Expenses in the three- and nine-month periods ended September 30, 2007 compared to the corresponding periods of the prior year. In the quarter ended September 30, 2006, there was a decline in our common stock price, which caused a decline in our long-term incentive expenses for the periods ended September 30, 2006. The increase in our gross margin expenses for the three months ended September 30, 2007 compared to the immediately preceding quarter was due to higher accruals for annual bonuses, as we anticipate that we will exceed our 2007 net income target. For the full-year 2007, we expect our Unallocated Expenses to increase from 2006 levels in line with the increase in the size of our operations.

Other

The table that follows sets forth our significant financial statement items below the income from operations line.

	For the Three Months Ended			For the Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	June 30, 2007	Sept. 30, 2007	Sept. 30, 2006
	<i>(dollars in thousands)</i>				
Interest income	\$ 316	\$ 130	\$ 137	\$ 568	\$ 260
Interest expense, net of amounts capitalized	(4,400)	(3,528)	(3,972)	(11,502)	(9,450)
Equity earnings of unconsolidated affiliates, net	1,022	2,482	1,052	3,263	10,715
Other income (expense), net	(69)	(1,213)	(205)	(242)	(2,400)
Provision for income taxes	28,621	19,915	25,437	72,634	50,929

Page 19

Table of Contents

The amounts of equity earnings (losses) of unconsolidated affiliates are as follows:

	For the Three Months Ended			For the Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	June 30, 2007	Sept. 30, 2007	Sept. 30, 2006
	<i>(dollars in thousands)</i>				
Medusa Spar LLC	\$ 771	\$ 2,614	\$ 1,036	\$ 3,012	\$ 9,996
Other	251	(132)	16	251	719
Total	\$ 1,022	\$ 2,482	\$ 1,052	\$ 3,263	\$ 10,715

We own a 50% equity interest in Medusa Spar LLC, which owns a 75% interest in the Medusa Spar production platform in the Gulf of Mexico. Medusa Spar LLC earns revenue on a tariff basis on oil and gas production throughput processed by the spar from the Medusa field and certain specified surrounding areas. The lower earnings for the three- and nine-month periods ended September 30, 2007 compared to the corresponding periods of the prior year resulted from declining production as the reservoirs currently being produced deplete normally. For 2007, we anticipate lower equity income than in 2006 from our Medusa Spar LLC investment due to declines in production from the currently producing reservoirs.

Interest expense for the three- and nine-month periods ended September 30, 2007 increased compared to the corresponding periods of the prior year due to higher average debt levels.

Foreign currency gains of \$0.8 million for the nine-month period ended September 30, 2007 are included in other income (expense) and are related primarily to the devaluation of the U.S. Dollar against the Brazilian Real.

The provisions for income taxes were related to U.S. income taxes that we provided at estimated annual effective rates using assumptions as to earnings and other factors that would affect the tax calculation for the remainder of the year and to the operations of foreign branches and subsidiaries that were subject to local income and withholding taxes. We anticipate our effective tax rate for 2007 to be 35.0%. Tax credits reduced our effective tax rates to 34.7% and 35.0% for the three- and nine-month periods ended September 30, 2007, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Because we operate in various oil and gas exploration and production regions in the world, we conduct a portion of our business in currencies other than the U.S. Dollar. The functional currency for several of our international operations is the applicable local currency. We manage our exposure to changes in foreign exchange rates primarily through arranging compensation in U.S. Dollars or freely convertible currency and, to the extent possible, by limiting compensation received in other currencies to amounts necessary to meet obligations denominated in those currencies. We use the exchange rates in effect as of the balance sheet date to translate assets and liabilities as to which the functional currency is the local currency, resulting in translation adjustments that we reflect as accumulated other comprehensive income or loss in the shareholders' equity section of our consolidated balance sheets. We recorded adjustments of \$24.3 million and \$8.4 million to our equity accounts for the nine-month periods ended September 30, 2007 and 2006, respectively, to reflect the net impact of the U.S. Dollar against various foreign currencies for locations where the functional currency is not the U.S. Dollar.

Item 4. Controls and Procedures.

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2007 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed,

summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Table of Contents

There has been no change in our internal control over financial reporting that occurred during the three months ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION**Item 6. Exhibits**

			Registration or File Number	Form or Report	Report Date	Exhibit Number
*	3.01	Restated Certificate of Incorporation	1-10945	10-K	Dec. 2000	3.01
*	3.02	Amended and Restated By-Laws	1-10945	10-K	Dec. 2002	3.02
	31.01	Rule 13a-14(a)/15d-14(a) Certification by T. Jay Collins, Chief Executive Officer				
	31.02	Rule 13a-14(a)/15d-14(a) Certification by Marvin J. Migura, Chief Financial Officer				
	32.01	Section 1350 Certification by T. Jay Collins, Chief Executive Officer				
	32.02	Section 1350 Certification by Marvin J. Migura, Chief Financial Officer				

* Indicates exhibit previously filed with the Securities and Exchange Commission, as indicated, and is incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OCEANEERING INTERNATIONAL, INC.
(Registrant)

Date: November 7, 2007

By: /S/ T. JAY COLLINS

T. Jay Collins
President and Chief Executive Officer

Date: November 7, 2007

By: /S/ MARVIN J. MIGURA

Marvin J. Migura
Senior Vice President and Chief Financial Officer

Date: November 7, 2007

By: /S/ W. CARDON GERNER

W. Cardon Gerner
Vice President and Chief Accounting Officer

Page 22

Table of Contents**Index to Exhibits**

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